

DOCUMENT RESUME

ED 305 012

HE 022 331

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TITLE A Summary of State Funding of Higher Education for Quality Improvement: SREB-State Trends and Actions.
INSTITUTION Southern Regional Education Board, Atlanta, Ga.
PUB DATE 88
NOTE 21p.; For related documents, see HE 022 327 and HE 022 330.
AVAILABLE FROM Southern Regional Education Board, 592 Tenth St., NW, Atlanta, GA 30318-5790 (\$4.00).
PUB TYPE Reports - Research/Technical (143)
EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS Access to Education; *Educational Finance; Educational Improvement; *Educational Quality; Expenditures; *Financial Support; Full State Funding; Higher Education; Income; *State Aid; *State Colleges; Student Financial Aid; Teacher Salaries
IDENTIFIERS *United States (South)

ABSTRACT

The findings of the Southern Regional Education Board (SREB) study of state funding levels and funding methods, covering the period of 1980 to 1987, are summarized. The study reveals that the rate of increased financial support for public colleges and universities from state and local governments in most SREB states has been below the rate of increase nationwide. Per-student state and local funding has not kept up with inflation in most of the states. Salary increases for full-time faculty have not kept pace with either the rates of increase nationwide nor with the rate of increase in per capita income in most states. The proportion of state budgets going to public higher education has declined in nearly all the states. Students are bearing a growing share of costs in most states, while tax funds cover less than before. Specific findings are reported in the following areas: actual financial support, relative priority of higher education funding, changes in public higher education funding strategies and methods, states' ability to pay, states' willingness to pay, and the demand for public higher education services. Charts illustrate findings in each area, and a table is appended showing state appropriations for public higher education for full-time-equivalent students, 1980 through 1987. (KM)

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A Summary of State Funding of Higher Education for Quality Improvement: SREB-State Trends and Actions

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A SUMMARY OF STATE FUNDING OF HIGHER EDUCATION FOR QUALITY IMPROVEMENT: RECENT SREB-STATE TRENDS AND ACTIONS

In the 1980s nearly two-thirds of the SREB states formed special study commissions and issued major comprehensive reports on the improvements needed in public higher education. These state reports call for quality improvement and respond to the attention directed by SREB and national commissions to the need for improving the quality of education, especially at the undergraduate level, in colleges and universities.

Much of what is recommended has to do with raising standards and assessing and upgrading educational programs and activities. But much, especially in the state reports, also has to do with improving funding levels and revising funding methods and practices. For example, the 1985 Virginia "10-point plan" to make the state's system of colleges and universities "among the best in the nation" contains eight points addressing funding levels and methods.

SREB has issued a number of reports that focus on state initiatives to improve the quality of public higher education. This report summarizing the findings of the latest SREB study of state funding levels and funding methods covers the period 1980 to 1987 and is intended to assist state public higher education leaders in charting their future course.*

The SREB study reveals that in the 1980s the rate of increased financial support for public colleges and universities from state and local governments in most SREB states has been below the rate of increase nationwide. Per-student state and local funding has not kept up with inflation for colleges and universities in a majority of SREB states. Salary increases for full-time faculty have not kept pace with the rates of increase nationwide in two-thirds of the SREB states nor have they kept pace with the rates of increase in per capita income in most SREB states. The proportion of state budgets going to public higher education has declined in nearly all the SREB states. Students are bearing a growing share of costs in most SREB states while tax funds—still by far the largest single source of revenue for colleges and universities—cover less of the bill than before. Formula funding is now less likely to be the way that most new monies are channeled to higher education. Many states are turning to special category funding, such as endowed chair and centers of excellence programs as the places where they will invest new monies for higher education. These findings raise an important follow-up question for state higher education leaders: Is the present state of higher education funding a satisfactory response to the calls for increased quality in SREB-state public higher education?

* This summary report is based on J. Kent Caruthers and Joseph L. Marks, State Funding of Higher Education for Quality Improvement in the SREB States (Atlanta: Southern Regional Education Board, 1988). An additional report, J. Kent Caruthers and Joseph L. Marks, State Funding Formulas for Higher Education in the SREB States (Atlanta: Southern Regional Education Board, 1988) provides details of the funding methods employed by the SREB states in the 1986-87 academic year.

The SREB study begins by addressing three central questions about the public higher education funding systems in the SREB states:

What has happened in the 1980s to the actual financial support for public higher education?

- Per-student state and local funding adjusted for inflation has increased at least as much as the nationwide rate of 2.3 percent in Alabama, Georgia, North Carolina, Oklahoma, Tennessee, and Virginia; less than the nationwide rate in Arkansas, Florida, Kentucky, Louisiana, Maryland, Mississippi, South Carolina, Texas, and West Virginia.
- There are more state and local dollars per student for public higher education, when inflation is taken into account, in Alabama, Arkansas, Georgia, North Carolina, Oklahoma, Tennessee, and Virginia; fewer in Florida, Kentucky, Louisiana, Maryland, Mississippi, South Carolina, Texas, and West Virginia.
- Full-time faculty salaries in Florida, Georgia, Tennessee, and Virginia kept pace with or surpassed the average national increase of 48.2 percent; but faculty salary gains were below the nationwide rate of increase in Alabama, Arkansas, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Texas, and West Virginia.
- Faculty salary increases in the SREB states met or exceeded the state rate of per capita income increase in Florida, Tennessee, Texas, Virginia, and West Virginia; the rate of salary increase was below that for state per capita income in Alabama, Arkansas, Georgia, Kentucky, Louisiana, Maryland, Mississippi, South Carolina, and West Virginia; overall nationally, faculty salaries kept pace with income increases.

What has happened in the 1980s to the relative priority of higher education funding?

- Public higher education now receives a larger percentage of state and local tax funds in North Carolina and Tennessee; a smaller percentage in Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, Oklahoma, South Carolina, Texas, Virginia, and West Virginia. The average share of state and local tax dollars going to higher education fell by 9 percent nationally; less in Maryland, North Carolina, Tennessee, and Virginia; more than the national average in Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, Oklahoma, South Carolina, Texas, and West Virginia.
- State and local funds paid for a larger proportion of the costs of higher education and student tuition and fees a lower proportion in Alabama, Maryland, North Carolina, Oklahoma, Tennessee, and West Virginia. A smaller proportion of the costs of public higher education were paid by state and local funds and student tuition and fees constituted a larger proportion in Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, South Carolina, Texas, and Virginia.

In the 1980s, what changes in public higher education funding strategies and methods are occurring?

- A fundamental change has occurred in state funding in more than half of the SREB states. Formula funding procedures continue to account for the large majority of dollars requested or allocated in higher education, but these states began to supplement funding not through formula or incremental budgeting but by introducing

non-formula, special category funding. This new funding approach is being used in Alabama, Florida, Kentucky, Louisiana, North Carolina, South Carolina, Tennessee, Texas, Virginia, and West Virginia.

- Projected enrollments are used as the basis for budget building in Arkansas, Georgia, Maryland, Mississippi, and Oklahoma. The use of prior year enrollments, a "rolling average," or enrollment within a certain "corridor" instead of projected enrollments as a basis for funding tends to reduce sharp funding fluctuations caused by enrollment changes in Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, South Carolina, Tennessee, Texas, Virginia, and West Virginia.
- The mathematical weightings used in funding formulas have been adjusted to better recognize needs in such areas as faculty salaries, instructional programs, and libraries in Florida, Georgia, Kentucky, Tennessee, and Virginia.
- External funding targets, such as the SREB regional average for faculty salaries or per-student appropriations and other peer institution comparisons, are employed in the funding systems in Alabama, Florida, Georgia, Kentucky, South Carolina, Tennessee, Texas, and Virginia.

The answers to these questions about financial support, relative priority, and funding strategies need to be viewed in the context of the states' economic and demographic circumstances, which leads to three other questions concerning trends between 1980 and 1987:

What are the trends in the 1980s in the states' ability to pay for public higher education?

- Per capita personal income has grown faster than the national rate in Arkansas, Florida, Georgia, Maryland, North Carolina, South Carolina, Tennessee, and Virginia; below the national rate in Alabama, Kentucky, Louisiana, Mississippi, Oklahoma, Texas, and West Virginia. The region's growth in per capita income has been sufficient to maintain the pace of growth nationally (47.6 percent), but not to close the gap.
- Kentucky, Louisiana, Mississippi, Oklahoma, Texas, and West Virginia have lost ground when compared to the regional average per capita income increase of 46.7 percent.
- Overall tax capacity (personal income plus other tax bases) has increased at least as much as nationally (70.7 percent) in Florida, Georgia, Maryland, North Carolina, Oklahoma, South Carolina, and Virginia; less than this rate in Alabama, Arkansas, Kentucky, Louisiana, Mississippi, Tennessee, Texas, and West Virginia.

What are the trends in the 1980s in the states' willingness to pay for public higher education?

- Increases in the amount of state tax revenues per \$1,000 of personal income exceeded the national average increase of 6.3 percent in Florida, Louisiana, Oklahoma, South Carolina, Tennessee, and West Virginia; increases were lower than the national rate in Alabama, Arkansas, Georgia, Kentucky, Maryland, Mississippi, North Carolina, Texas, and Virginia. The regional average of state tax revenues per \$1,000 of personal income (now \$60.70) has fallen slightly further behind the national rate (now \$64.61).

- The tax effort (the ratio of tax collections to tax capacity) is higher now than in 1980 in Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, North Carolina, Oklahoma, South Carolina, Texas, Virginia, and West Virginia; lower in Maryland, Mississippi, and Tennessee.

What are the trends in the 1980s in the demand for public higher education services?

- Full-time-equivalent enrollments in public higher education rose in Arkansas, Florida, Louisiana, Maryland, North Carolina, Oklahoma, South Carolina, Texas, and Virginia; fell in Alabama, Georgia, Kentucky, Mississippi, Tennessee, and West Virginia. Nationwide there was a slight decline.
- Students are enrolling at a rate above the national rate of 6.8 percent, when the public higher education full-time-equivalent enrollment is compared with the adult population of college-going age, in Alabama, Maryland, Mississippi, North Carolina, Oklahoma, Texas, and Virginia; below the national rate in Arkansas, Florida, Georgia, Kentucky, Louisiana, South Carolina, Tennessee, and West Virginia.
- The number of annual high school graduates per the 18- to 24-year-old population is higher than the national average in Arkansas, Maryland, and West Virginia; it is lower than the national rate in Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, and Virginia.
- The decline in the number of annual high school graduates per 18- to 24-year-old population is less than it was nationally (7.1 percent) in Alabama, Kentucky, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, and West Virginia; more than nationally in Arkansas, Florida, Georgia, Louisiana, Maryland, Mississippi, and Virginia.

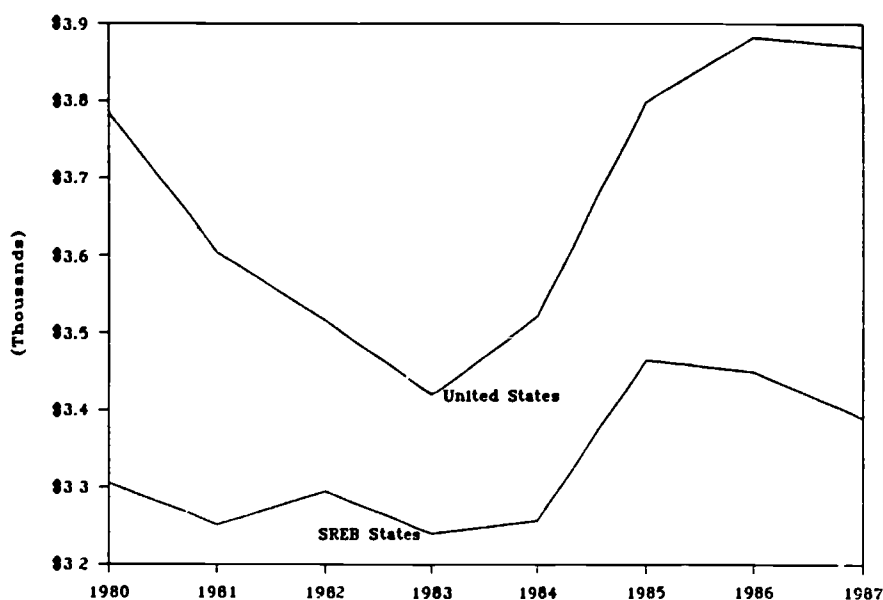
The SREB states have been leaders in calling for quality improvements in their state public higher education systems. Necessary elementary and secondary education reforms are well underway, although much remains to be done. The region's ability to pay for state governmental services to support needed improvements remains below national averages. However, there appears to be an increased willingness to pay for state governmental services, although a significant gap with national measures still remains. The demand for higher education in the SREB states is increasing. It remains to be seen whether this will lead to a commitment to restoring the relative priority of funding public higher education. This will be necessary if public higher education in the SREB states is to receive more than marginal, inflation-adjusted increases in state financial support.

Actual Financial Support

The funding measure that is most often used as one indicator of the potential quality of colleges and universities is "revenue per student." A common goal of educational leaders is for their state to increase per-student support at least as fast as those of other states and to keep pace with inflation.

Per-student funding in the SREB states has fluctuated around 90 percent of the national average in the 1980s. Three SREB states (Georgia, South Carolina, and Tennessee) had per student funding levels greater than or equal to the 1987 national level of \$3,871; the remaining 12 SREB states (Alabama, Arkansas, Florida, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, Texas, Virginia, and West Virginia) had funding levels below the national average. Eight states (Arkansas, Georgia, Kentucky, Maryland, North Carolina, South Carolina, Tennessee, and Virginia) are above the 1987 SREB regional average per student funding level of \$3,390; 7 SREB states (Alabama, Florida, Louisiana, Mississippi, Oklahoma, Texas, and West Virginia) are below this level.

**Trends in State and Local Operating Appropriations
Per Full-Time-Equivalent Student
(In 1987 constant dollars)**



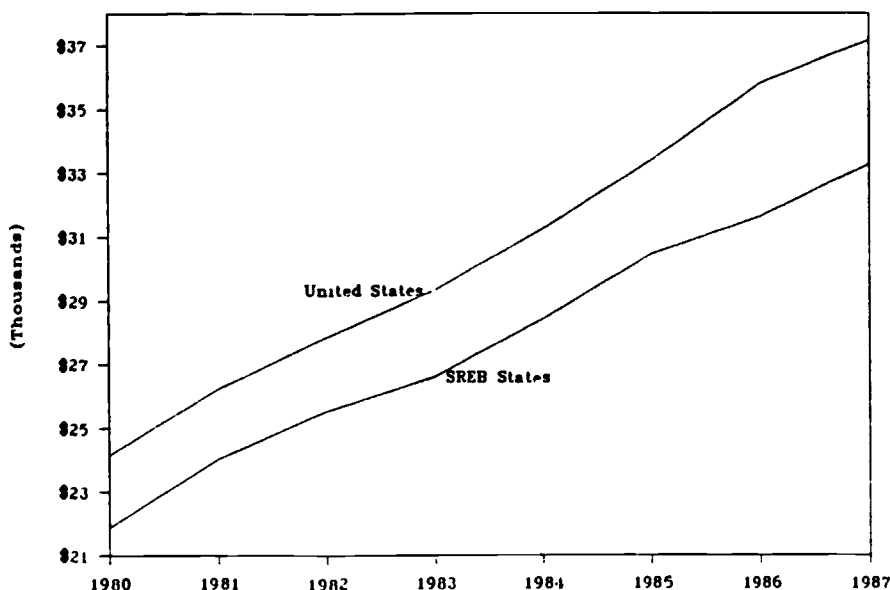
SOURCE: J. Kent Caruthers and Joseph L. Marks, State Funding of Higher Education for Quality Improvement in the SREB States (Atlanta: Southern Regional Education Board, 1988, Table 2-10).

From 1980 to 1983 the SREB states narrowed the per-student appropriations gap with the national average due primarily to a decline in the national average; since 1983, the gap has widened. Only 6 SREB states (Alabama, Georgia, North Carolina, Oklahoma, Tennessee, and Virginia) have increased their per student funding at least as much as the national average of 2.3 percent since 1980; 9 states (Arkansas, Florida, Kentucky, Louisiana, Maryland, Mississippi, South Carolina, Texas, and West Virginia) have not.

When the effects of inflation are taken into account, 7 SREB states (Alabama, Arkansas, Georgia, North Carolina, Oklahoma, Tennessee, and Virginia) appropriate more dollars per student than they did in 1980; 8 states (Florida, Kentucky, Louisiana, Maryland, Mississippi, South Carolina, Texas, and West Virginia) appropriate fewer dollars. The SREB regional average, adjusted for inflation, is now only 2.6 percent higher than at the start of the decade. While this is a bit higher than the national increase since 1980, this increase amounts to only about one-third of one percent each year.

Another funding measure commonly used to look at quality improvement efforts is average full-time faculty salary levels. In the 1980s average faculty salaries in the SREB region have lost ground to the national average. Only one SREB state (Virginia) has a 1987-88 average faculty salary level greater than or equal to the national average of \$37,170. Since 1980 only 5 SREB states (Alabama, Florida, Maryland, Tennessee, and Virginia) have had faculty salary increases greater than the average national increase of 48.2 percent and 9 SREB states (Arkansas, Georgia, Kentucky, Louisiana, Mississippi, Oklahoma, South Carolina, Texas, and West Virginia) have not matched the regional average increase of 44.6 percent.

**Trends in Average Full-Time Faculty Salaries
(all public institutions)**



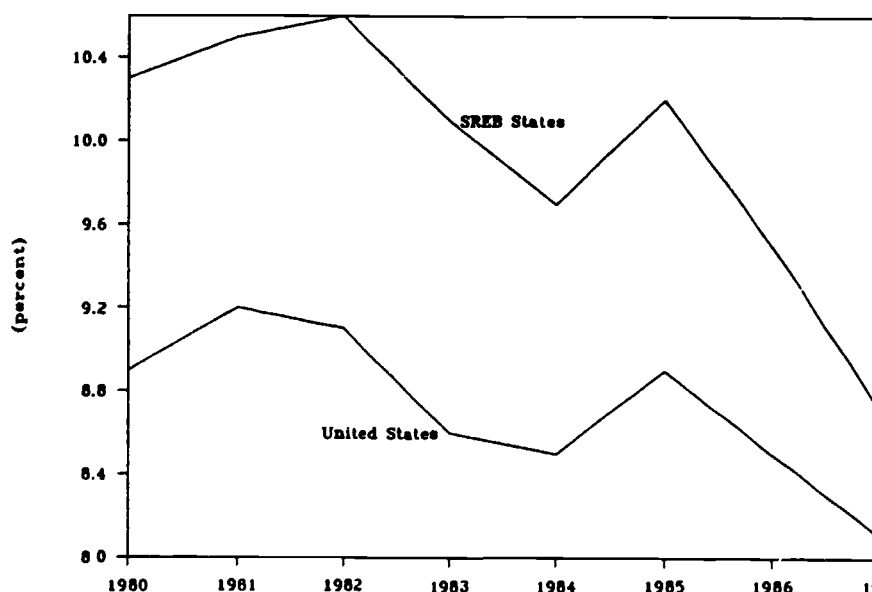
SOURCE: J. Kent Caruthers and Joseph L. Marks, State Funding of Higher Education for Quality Improvement in the SREB States (Atlanta: Southern Regional Education Board, 1988, Table 4-7).

In the 1980s average faculty salaries nationwide rose more than per capita income, reversing a long trend. Among the SREB states, however, average faculty salaries grew at a slower rate than per capita income in Alabama, Arkansas, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, South Carolina, and West Virginia.

Relative Priority

Public higher education is only one of many state services that compete for state and local tax dollars. Even though the geography, demography, and economy of each state provide a different mix of state needs, a useful indicator to consider is the percent of state and local tax funds appropriated for higher education operating expenses. At a time of frequent calls for quality improvement, an increase in the proportion of tax dollars going to higher education might well be expected.

**Trends in Higher Education Operating Appropriations
as a Percent of State and Local Tax Revenues**



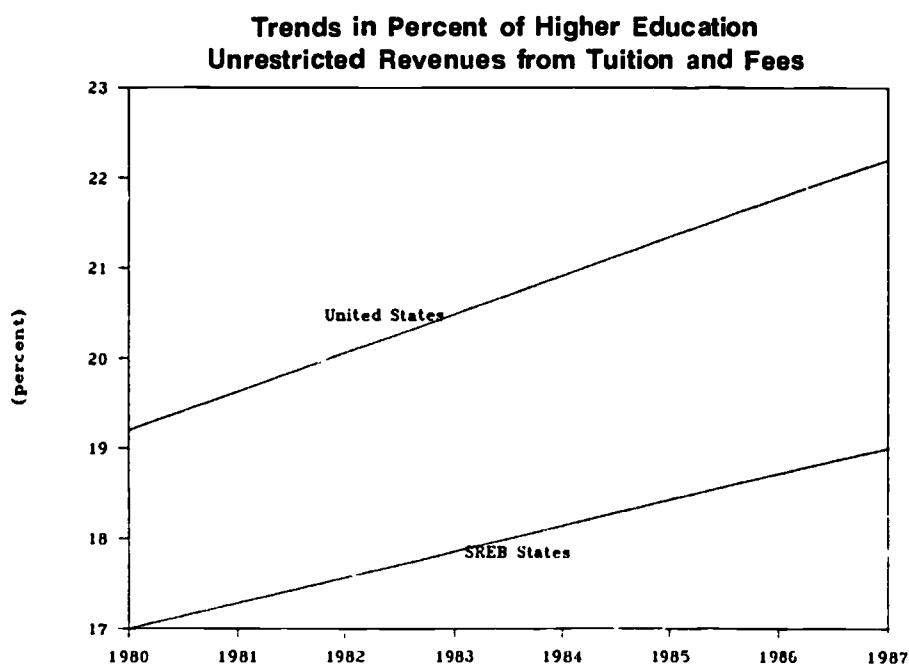
SOURCE: J. Kent Caruthers and Joseph L. Marks, State Funding of Higher Education for Quality Improvement in the SREB States (Atlanta: Southern Regional Education Board, 1988, Table 2-8).

In the 1980s, 2 SREB states (North Carolina and Tennessee) have shown an increased percent of state and local tax funds going for public higher education operations. The other SREB states have followed the national trend of a declining share of state and local tax revenues directed to higher education.

Public higher education in 10 SREB states (Alabama, Arkansas, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee, Texas, and Virginia) received a higher proportion of state and local tax funds in 1987 than the national average of 8.1 percent. But, over the 1980 to 1987 period, in 11 SREB states (Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, Oklahoma, South Carolina, Texas, and West Virginia) the decrease in higher education's share of state and local tax funds was at least as great as the decrease nationally. Ironically, because the SREB states have been leaders in calling for quality improvements and funding levels to support them, other regions of the country, while historically devoting somewhat lower tax dollar shares for public higher education, have maintained the share of tax dollars going to public higher education better than the SREB region.

Most SREB states have made major changes in the funding levels of elementary and secondary education in the 1980s. This, in part, accounts for the declining share of revenues to higher education. For example, consider salaries, the budget item that accounts for most dollars going to education. Teacher salaries have risen more rapidly than faculty salaries in three-fourths of the SREB states in the 1980s. School reform efforts will promote quality improvement in higher education in the long term. But, in the short term, they may reduce the relative priority of higher education funding in state budgets.

The mixture of revenue sources is another important consideration in understanding the relative priority of public higher education in a state. When compared to national averages, the public colleges and universities in the SREB states tend to receive a higher percentage of their budgets from state and local appropriations and a lower percentage

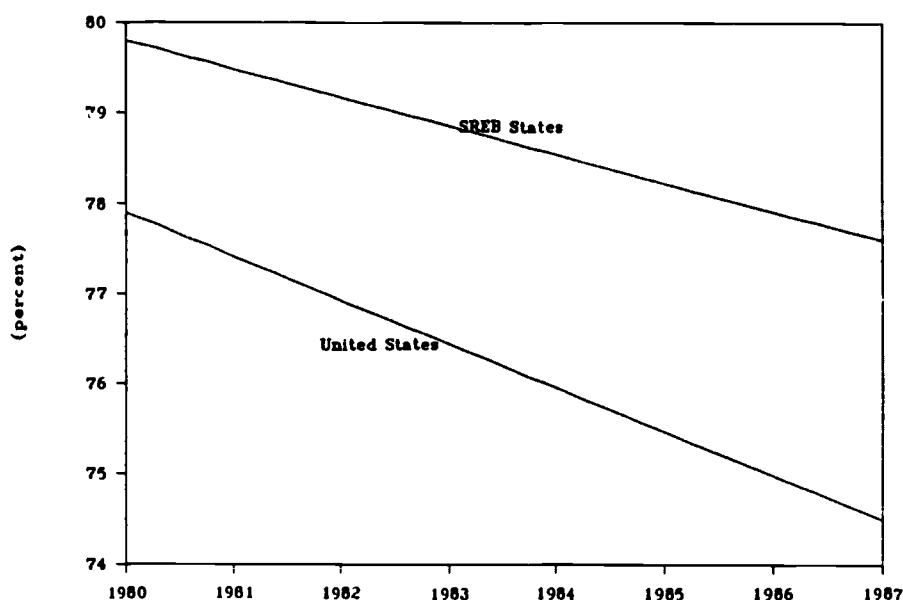


SOURCE: J. Kent Caruthers and Joseph L. Marks, State Funding of Higher Education for Quality Improvement in the SREB States (Atlanta: Southern Regional Education Board, 1988, Table 3-3).

from tuition and fees. In only 2 SREB states (Maryland and Virginia) do public higher education institutions have budget proportions from tuition and fees greater than or equal to the national level of 22 percent. The share of college and university unrestricted revenues from tuition and fees increased faster nationwide than in the SREB states over the 1980 to 1986 period. However, 7 SREB states (Georgia, Kentucky, Louisiana, South Carolina, Texas, Virginia, and West Virginia) increased the proportion of revenues from tuition at more than the national rate of increase.

Although the percentage shifts appear small, they conceal the fact that millions of dollars are at stake. For example, the 2 percentage point increase in the percentage of funds from tuition and fees in the SREB region represents a \$252 million increase in tuition and fees.

**Trends in Percent of Higher Education
Unrestricted Revenues from State and Local Appropriations**



SOURCE: J. Kent Caruthers and Joseph L. Marks, State Funding of Higher Education for Quality Improvement in the SREB States (Atlanta: Southern Regional Education Board, 1988, Table 3-3).

While revenues from state and local appropriations still account for about 78 percent of higher education unrestricted revenues in the SREB region, the relative share has dropped over 2 percentage points. This amounts to \$277 million less state and local support for higher education than would have been available if the 1980 share had been maintained.

Nine SREB states (Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, South Carolina, Texas, and Virginia) show lower percentages of unrestricted revenues from such appropriations. Nationally the share of revenues from state and local appropriations fell more than in the SREB region, but in 4 SREB states (Louisiana, South Carolina, Texas, and Virginia) the share declined at a pace greater than or equal to the national rate. To some extent, the burden of higher education financing in the 1980s is shifting from the states to the students.

A final aspect of relative priorities has to do with the expenditure patterns of colleges and universities. Spending for instruction accounts for a greater share of college and university budgets in the SREB region than nationally. Even so, the percentage of expenditures for institutional support (general administration) and scholarships and fellowships increased, while the percentages for instruction, research, student services, and operation of the plant fell in the SREB region.

Here again, small shifts represent large sums of money. In the SREB region instruction accounted for 2 percentage points less of educational and general expenditures in 1986 than it did in 1980. Had the percentage remained at the 1980 level, \$328 million dollars more would have been spent on instruction; enough to raise the salary for each full-time faculty member in the SREB region in 1986-87 by over \$3,000 or a 10 percent increase each.

These data on expenditures examine only changes between major spending areas. They are not sufficiently detailed to allow an examination of shifts in funding priorities within major spending categories. Significant efforts to address quality improvement could be occurring through reallocations within categories that are not apparent when examining the shifts between major categories of expenditure. However, the general information that shows a declining percentage of higher education dollars going for instruction may raise questions about the relative budget priority of instruction on campuses which will prompt state leaders to explore this further.

Changes in Funding Methods and Strategies

Most higher education funding formulas and background materials rely on interstate comparisons to justify funding levels and to help insure that adequate levels of funding are being provided. Generally speaking, higher education leaders in those states below the average seek to move their states toward the average. In those states that are above average the aim is either to remain at that higher plateau (for example, an upper quartile of the nation as a standard in Florida), or to reach a new, higher level (for example, Virginia chose the 60th percentile of the nation on faculty salaries, or the Texas target of the faculty salary average of the 10 largest states). Eight SREB states (Alabama, Florida, Georgia, Kentucky, South Carolina, Tennessee, Texas, and Virginia) use these kinds of external targets in their funding methods, and Mississippi and West Virginia have recently adopted this approach.

The majority of SREB states (Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, South Carolina, Tennessee, Texas, Virginia, and West Virginia) no longer use projected enrollments in their funding formula calculations. Instead, most use either prior year actual enrollments, or a "rolling average" method. Several do not adjust funding levels until enrollments are outside a designated enrollment "corridor"; for example, unless enrollments are 2 percent above or below the budgeted level. These changes grew out of a concern to de-emphasize enrollment growth as an end in itself and to cushion the financial impact of year-to-year fluctuations in enrollment. Each technique tends to protect higher education's base funding, upon which quality improvement efforts and reallocations rest.

Other recent changes in higher education formula funding methods that are more directly related to quality improvement include: revisions of formula relationships (for example, in Georgia, different formula funding levels exist for different instructional programs); or the creation of new categories of funding (for remedial education in Georgia, faculty development in Texas, student access in Maryland, and instructional and research equipment in Virginia). The use of separate formula categories for these activities serves to highlight them to state budget makers.

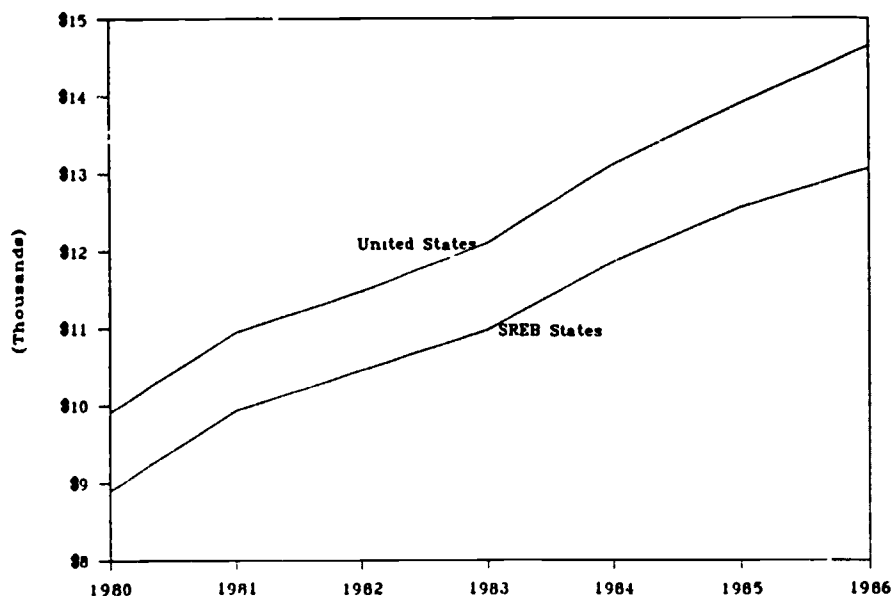
The most common changes in state-level higher education budgeting have introduced non-formula budget categories. About half of the SREB states (Alabama, Florida, Kentucky, Louisiana, North Carolina, South Carolina, Tennessee, Texas, Virginia, and West Virginia) have introduced non-formula funding for programs such as endowed chairs. Other popular areas for non-formula support have included equipment (Florida, Texas, Virginia, and West Virginia), research grants (Arkansas, Florida, Louisiana, South Carolina, and Texas) and centers of excellence (Florida, Kentucky, Tennessee, and Virginia). These changes represent a fundamental shift in funding strategy away from exclusive or nearly exclusive reliance on formula funding or incremental budgeting methods.

Ability to Pay

A state's ability to pay is influenced both by the earnings of its citizens and the income-producing ability of its human and natural resources and other assets such as industrial plants and equipment or a geographic and social atmosphere attractive to tourists.

Per capita income provides a measure that considers a state's ability to support its colleges and universities in terms of the current earnings of the state's citizens. The SREB region tends to have per capita income levels approaching 90 percent of the national average. Only 3 SREB states (Florida, Maryland, and Virginia) exceeded the national per capita income of \$14,641 in 1986. In the early 1980s the SREB region gained ground on the national per capita figure, but since has lost ground, in large part due to the relatively low gains in the oil- and gas-producing states of Louisiana, Oklahoma, and Texas. Over the 1980 to 1986 period, 8 of SREB's 15 states (Arkansas, Florida, Georgia, Maryland, North Carolina, South Carolina, Tennessee, and Virginia) had per capita personal income growth rates greater than the national rate of 47.6 percent. Six states (Kentucky, Louisiana, Mississippi, Oklahoma, Texas, and West Virginia) were below the SREB regional growth rate of 46.7 percent.

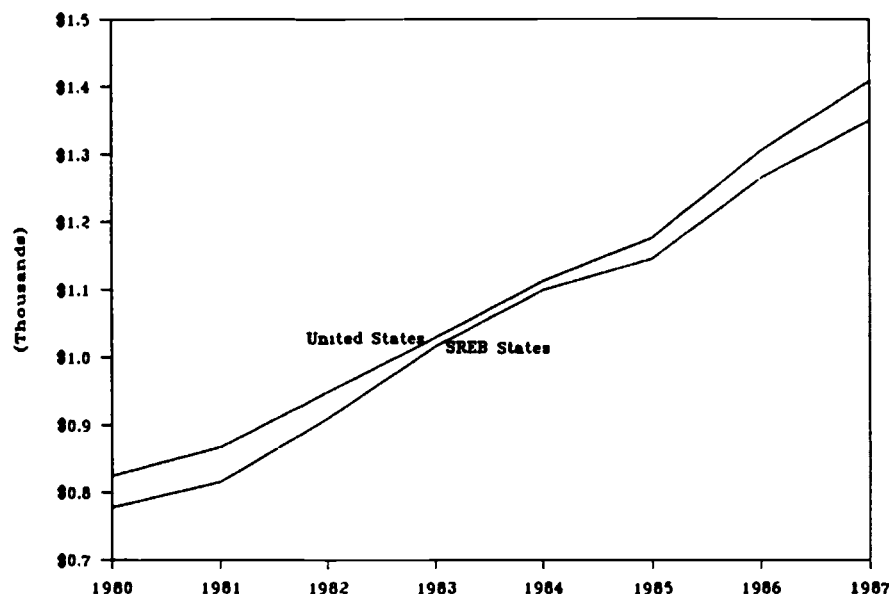
Trends in Per Capita Personal Income



SOURCE: J. Kent Caruthers and Joseph L. Marks, State Funding of Higher Education for Quality Improvement in the SREB States (Atlanta: Southern Regional Education Board, 1988, Table 2-1).

State tax capacity, another measure of ability to pay, is estimated by multiplying the national average tax rates by the state's taxable base. On this measure Louisiana, for example, ranks much higher than on the per capita income measure because of petroleum and gas resources. In the early 1980s the SREB region almost reached parity with the national average in tax capacity per capita, but then began to lose ground primarily due to relatively low increases in Alabama, Arkansas, Kentucky, Louisiana, and West Virginia. Only 4 SREB states (Florida, Maryland, Oklahoma, and Texas) have tax capacity levels at or above the national average. Seven states (Florida, Georgia, Maryland, North Carolina, Oklahoma, South Carolina, and Virginia) had increases in tax capacity at least as great as the national increase.

Trends in Per Capita Tax Capacity
(national average tax rates times state tax bases)



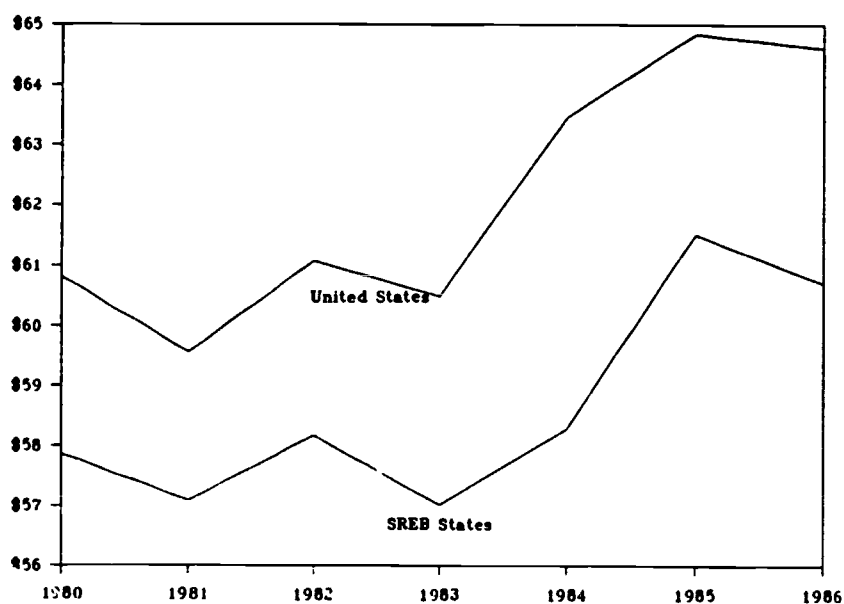
SOURCE: J. Kent Caruthers and Joseph L. Marks, State Funding of Higher Education for Quality Improvement in the SREB States (Atlanta: Southern Regional Education Board, 1988, Table 2-2).

On both types of ability to pay measures, the SREB region is 5 to 10 percent below the national average. Only 2 states (Maryland and Florida) exceed the national average on both measures. Between 1980 and 1987, the region's growth in ability to pay has been sufficient only to maintain pace with national growth and not to close the gap. Any relative improvement in college and university funding during the period would have had to come from either increased tax efforts or a greater priority on higher education.

Willingness to Pay

The most common measure of "willingness to pay" is the ratio of state tax collections to the state's personal income. This indicator is used to compare an individual state's ratio over a number of years to see if tax revenues are keeping pace with economic growth. From 1980 to 1986, citizens in 9 SREB states (Alabama, Arkansas, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Oklahoma, and West Virginia) paid a higher portion of their personal incomes for state taxes than did the nation. Overall, the SREB region generates four fewer tax dollars per \$1,000 of personal income (\$60.70) than does the nation (\$64.61). In the 1980s, 6 SREB states (Florida, Louisiana, Oklahoma, South Carolina, Tennessee, and West Virginia) had tax revenue increases above the national rate.

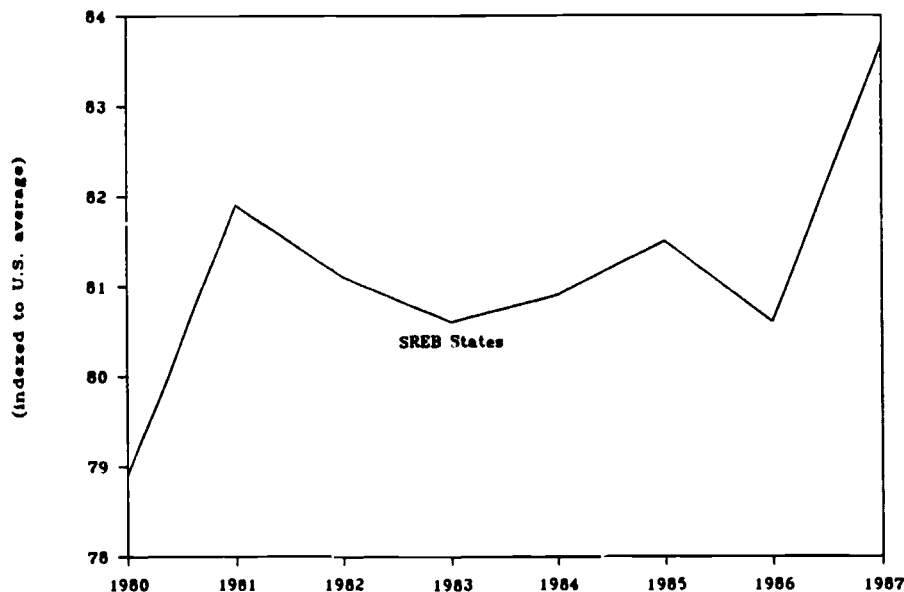
**Trends in Tax Revenues
Per \$1,000 of Personal Income**



SOURCE: J. Kent Caruthers and Joseph L. Marks, State Funding of Higher Education for Quality Improvement in the SREB States (Atlanta: Southern Regional Education Board, 1988, Table 2-3).

An alternative, but more complex, measure of willingness to pay is called tax effort—the ratio of tax collections to tax capacity compared to the national average, which is set to equal 100. On this measure the SREB states are closing the gap with the national average. Twelve of the SREB states (Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, North Carolina, Oklahoma, South Carolina, Texas, Virginia, and West Virginia) have higher tax effort measures than at the start of the decade. Nonetheless, only West Virginia is currently above the national average.

Trends in State Tax Effort
(tax revenues divided by tax capacity where the national average equals 100)



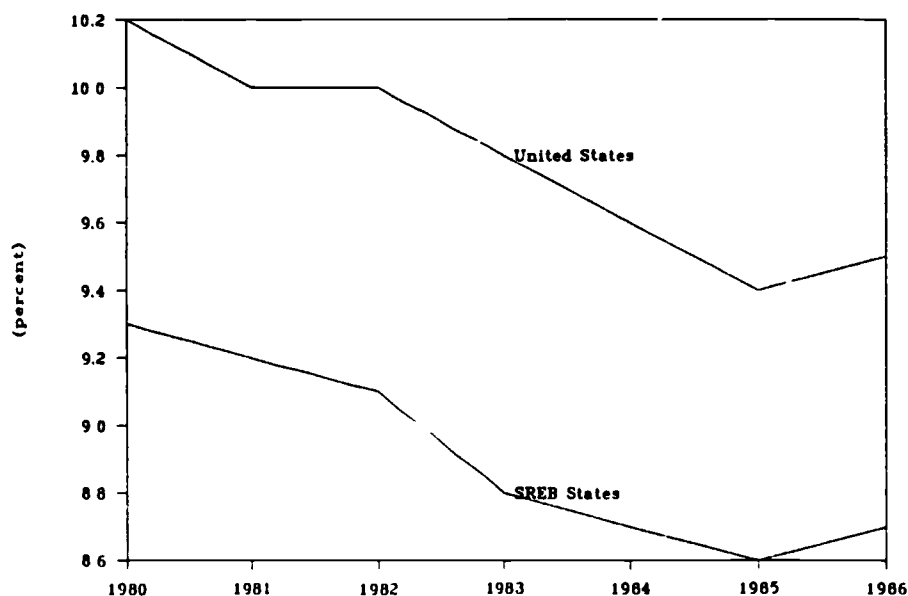
SOURCE: J. Kent Caruthers and Joseph L. Marks, State Funding of Higher Education for Quality Improvement in the SREB States (Atlanta: Southern Regional Education Board, 1988, Table 2-4).

On personal income measures the majority of SREB states generate relatively more taxes than the national average. On other tax capacity measures which also take into account additional tax sources beyond personal income, the SREB regional tax effort lags considerably behind the nation, but significant movement toward the national average has occurred.

Demand for Services

The demand for higher education services (the numbers of students eligible for and seeking enrollment) has a significant impact on the funding needs of public higher education. The number of high school graduates per 18- to 24-year-old population is a measure of potential demand for higher education. The changing demographics of the country have brought about a period of a declining high school age population. The latest projections show that the number of high school graduates will decline from 1988 to 1994. Compared to the national average, 12 of the 15 SREB states (all but Arkansas, Maryland, and West Virginia) have fewer high school graduates per 18- to 24-year-old population today than in 1980. But in the 1980s, 8 SREB states (Arkansas, Kentucky, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, and West Virginia) have had declines less than the national rate of decline.

**Trends in High School Graduates
Per 18- to 24-Year-Old Population**



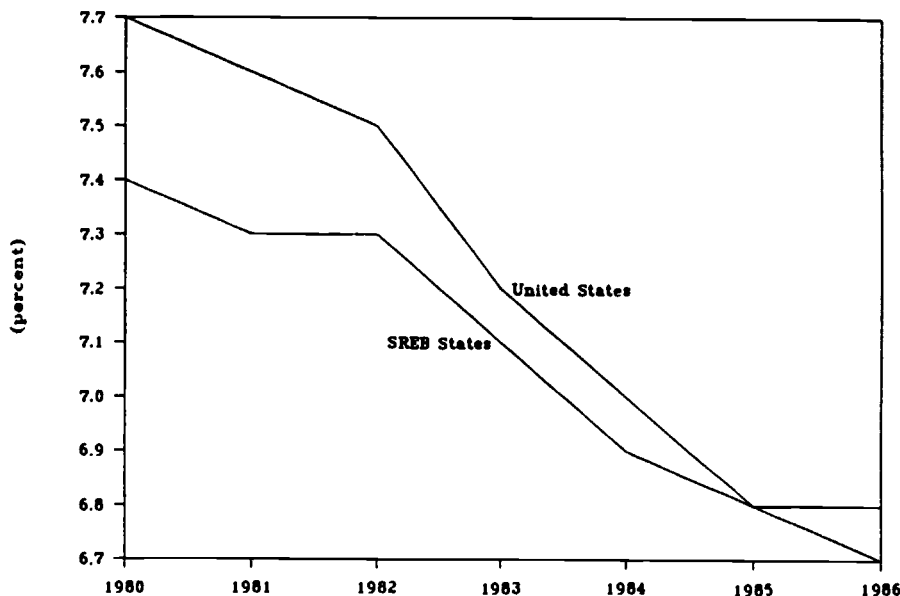
SOURCE: J. Kent Caruthers and Joseph L. Marks, State Funding of Higher Education for Quality Improvement in the SREB States (Atlanta: Southern Regional Education Board, 1988, Table 2-5).

The most direct measure of the demand for higher education is the trend in actual enrollments. During the 1980s the SREB region has experienced a 3.5 percent growth in public college and university full-time-equivalent enrollments compared to a nationwide decline of 0.7 percent. Nine SREB states (Arkansas, Florida, Louisiana, Maryland, North

Carolina, Oklahoma, South Carolina, Texas, and Virginia) had enrollment increases, which means that there are about 79,000 more full-time-equivalent students enrolled in higher education than there were in 1980.

Another measure of demand for services relates college full-time-equivalent enrollment to the population of "college-going age." This potential pool of students has become increasingly difficult to measure. Previously the relevant age group was considered to be 18- to 24-year-olds, but current analyses generally are based on 18- to 44-year-old population. Enrollment in all but one state in the region (North Carolina) as well as the national average has declined on this measure in the 1980s, due in part to the baby boom generation enlarging the size of the 25- to 44-year-old group. Currently 7 SREB states (Alabama, Maryland, Mississippi, North Carolina, Oklahoma, Texas, and Virginia) exceed the national ratio and, consequently, the region has approached the national average in the 1980s.

**Public Higher Education Full-Time-Equivalent Enrollment
as a Percent of the 18- to 44-Year-Old Population**



SOURCE: J. Kent Caruthers and Joseph L. Marks, State Funding of Higher Education for Quality Improvement in the SREB States (Atlanta: Southern Regional Education Board, 1988, Table 2-6).

Supporting Data for this Summary Report Are Available from SREB

The material on each topic in this summary report is based on more extensive data and information contained in J. Kent Caruthers and Joseph L. Marks, State Funding of Higher Education for Quality Improvement in the SREB States. The table below, relating to the "actual support" topic, is an example of the complete state-by-state data that can be found in the longer report. Copies are available from SREB, 592 Tenth Street, N.W., Atlanta, Georgia 30318-5790 at \$8.00 each; payment should accompany order.

Table 2-10

State Appropriations For Public Higher Education Per Full-Time-Equivalent Student
1980 Through 1987
(adjusted for inflation to 1987 constant dollars)

	1980	1981	1982	1983	1984	1985	1986	1987	Percent Change 1980-87
United States	\$3,784	\$3,604	\$3,516	\$3,421	\$3,522	\$3,799	\$3,883	\$3,871	2.3
SREB Region	3,305	3,252	3,295	3,240	3,257	3,465	3,450	3,390	2.6
SREB Region as a Percent of U.S.	87.3%	90.2%	93.7%	94.7%	92.5%	91.2%	88.8%	87.6%	--
Alabama	2,850	2,849	2,603	2,635	2,554	2,976	3,599	3,005	5.4
Arkansas	3,386	3,105	3,019	2,915	2,881	3,424	3,797	3,438	1.5
Florida	3,242	3,194	3,256	3,139	3,348	3,476	3,079	3,147	-2.9
Georgia	3,820	3,849	3,997	3,904	3,807	4,034	4,213	4,387	14.8
Kentucky	3,824	3,361	3,230	3,398	3,586	3,593	3,695	3,611	-5.6
Louisiana	3,522	3,693	3,689	3,557	3,301	3,435	3,222	2,952	-16.2
Maryland	3,543	3,477	3,227	3,305	3,144	3,298	3,410	3,495	-1.4
Mississippi	3,098	3,075	2,780	2,761	2,959	2,839	2,620	2,684	-13.4
North Carolina	3,158	3,069	3,027	2,969	2,826	3,569	3,740	3,841	21.6
Oklahoma	2,528	2,631	2,943	3,337	2,814	2,834	3,132	2,586	2.3
South Carolina	4,770	4,503	4,023	3,824	4,126	4,575	4,435	4,509	-5.5
Tennessee	3,394	3,214	3,128	3,110	3,152	3,824	4,210	4,453	31.2
Texas	3,182	3,201	3,680	3,448	3,619	3,532	3,214	3,031	-4.7
Virginia	3,185	3,201	3,008	2,874	3,141	3,385	3,452	3,672	15.3
West Virginia	3,124	2,850	2,828	2,554	2,559	2,780	2,998	2,926	-6.4

SOURCE: Kent Halstead, State Profiles: Financing Public Higher Education, 1978 to 1987, (Washington, D.C.: Research Associates of Washington, 1987).

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